S362-24 BACKGROUND DATA AND MATERIALS ON FISCAL YEAR 1983 SPENDING REDUCTION PROPOSALS PENDING BEFORE THE COMMITTEE SENATE FINANCE COMMITTEE, JUNE 1982

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Background Data and Materials on Fiscal Year 1983 Spending Reduction Proposals

PENDING BEFORE THE

Senate Finance Committee

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

ROBERT J. DOLE, *Chairman*

JUNE 1982

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BUDGET OVERVIEW

The revised current services baseline projects outlays of $827.0 billion and revenues of $645.0 billion for fiscal year 1983, leaving a baseline deficit of $182.0 billion. Table 1 shows that the deficit will rise to $232.5 billion in fiscal year 1985 if no policy changes are made.

TABLE 1.—REVISED BASELINE BUDGET ESTIMATES

	Fiscal year—		
	1983	1984	1985
Revenues	645.0	702.0	780.0
Outlays	827.0	918.0	1,012.5
Deficit	−182.0	−216.0	−232.5

TABLE 2.—FCR BUDGET, SENATE VERSION

	Fiscal year—			3-year totals
	1983	1984	1985	
Baseline deficit	182.0	216.0	232.5	630.5
Outlays	−42.7	−84.7	−121.8	−249.2
Revenues	+23.2	+39.0	+45.0	+107.2
Deficit reduction	65.9	123.7	166.8	356.4
Remaining deficits	116.1	92.3	65.7	274.1

Table 2 displays the revenue and spending changes proposed by the Senate budget resolution. Outlay savings of $249.2 billion, and additional revenues of $107.2 billion are assumed. Of the total deficit reduction of $356.4 billion, spending reductions represent 70 percent. By fiscal year 1985, the deficit is estimated to decline to $65.7 billion.

Table 3 provides more detail on the outlay changes called for under the Senate budget resolution.

TABLE 3.—OUTLAY REDUCTIONS

	Fiscal year—			3-year totals
	1983	1984	1985	
Defense	−5.0	−7.0	−10.0	−22.0
Federal civilian pay	−3.9	−6.3	−8.5	−18.7
Military pay	−1.6	−3.0	−4.0	−8.6
Discretionary	−2.7	−8.4	−15.9	−27.0
COLA's	−2.1	−4.4	−6.1	−12.6
Other entitlements	−6.0	−8.9	−11.1	−26.0
Management savings	−8.9	−12.1	−12.1	−33.1
Interest	−12.5	−34.6	−54.1	−101.2
Total	−42.7	−84.7	−121.8	−249.2

Instructions for the Finance Committee

The Senate resolution instructs the Committee on Finance to reduce expenditures below the baseline by $22.9 billion and raise revenues by $107.2 billion over fiscal years 1983-1985, as shown by Table 4. In all, the Committee on Finance is responsible for $130 billion in deficit reduction over the next three years—36.7 percent of the total deficit reduction.

TABLE 4.—3-YEAR TOTALS FOR THE FINANCE COMMITTEE

	Senate
Outlay reductions	22.9
Revenue increases	107.2
Total deficit reduction, Finance	130.1
Percent of total budget deficit reduction	36.7

Table 5 lists the program changes that were employed in arriving at our totals. As with specific revenue measures, however, the committee is not bound to any of these marks. Only total spending reductions and revenue increases are contained in the reconciliation instructions. The committee retains full flexibility over where savings are to be achieved and revenues increased.

TABLE 5.—SENATE BUDGET RESOLUTION INSTRUCTIONS FOR THE COMMITTEE ON FINANCE

	Fiscal year—		
	1983	1984	1985
Expenditure cuts:			
Medicare	−4.1	−6.4	−7.7

TABLE 5.—SENATE BUDGET RESOLUTION INSTRUCTIONS FOR THE COMMITTEE ON FINANCE—Continued

	Fiscal year—		
	1983	1984	1985
Medicaid	−.7	−.7	−.8
AFDC/CSE	−.4	−.5	−.6
SSI	−.2	−.3	−.4
UC			
Title XX			
Subtotal, spending	−5.5	−7.9	−9.5
Revenues	+23.2	+39.0	+45.0
Total deficit reduction	28.7	46.9	54.5

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Health Programs

SUMMARY CHART—ADMINISTRATION LEGISLATIVE PROPOSALS

Health Program Outlay Changes

[In millions of dollars]

	Fiscal year—		
	1983	1984	1985
Medicare:			
1. Eliminate PSRO's and UR:			
a. PSRO's	+20	+30	+45
b. UR	0	0	0
2. Delay initial eligibility date	−145	−183	−217
3. Modify coverage of working aged	−610	−700	−790
4. Reduce hospital costs by 2 percent	−653	−850	−950
5. Require minimal home health copayments	−35	−65	−75
6. Eliminate waiver of provider liability	−10	−10	−10
7. Reimburse inpatient radiology and pathology services at 80 percent	−160	−210	−250
8. Postpone physician fee screen update	−210	−235	−230
9. Index part B deductible to CPI	−50	−115	−205
10. Limit economic index increase	−35	−45	−55
11. Repeal provisions of Public Law 96–499	−19	−21	−25
12. Eliminate funding for end-stage renal disease networks	−5	−5	−5
13. Eliminate funding for State facility reviews under sec. 1122	−10	−10	−10
14. Modify medicare contracting	+1	−.4	−6
Total	−1,921	−2,419	−2,783
Medicaid:			
1. Require beneficiary copayments	−250	−275	−305
2. Reduce matching rates	−600	−670	−740
3. Eliminate matching for part B buy-in	−203	−216	−230
4. Eliminate special matching rates	−64	−70	−81
5. Establish combined welfare administration block grant—direct savings	−218	−284	−393
6. Reduce error rate tolerance	−59	−130	−225
7. Reduce eligibility extension	−75	−85	−95
8. Modify lien provisions	−183	−200	−221
9. Eliminate UR and PSRO's	−5	−5	−5
10. Impact of changes in other programs:			
a. AFDC changes	−153	−170	−190
b. SSI changes	−176	−328	−527
c. Medicare changes	−14	−9	−2
Total	−2,000	−2,442	−3,014

I. Legislation—Administration Proposals

A. MEDICARE

1. Eliminate Professional Standards Review Organizations (PSRO's) and Utilization Review (UR)

a. PSRO's

Current law.—The "Social Security Amendments of 1972" provided for the establishment of Professional Standards Review Organizations (PSRO's) throughout the country which were charged with the ongoing review of services provided under medicare and medicaid. PSRO's were to determine, for purposes of reimbursement under these programs, whether services are: (1) medically necessary; (2) provided in accordance with professional standards; and (3) in the case of institutional services, rendered in the appropriate setting. The Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, required the Secretary to develop PSRO performance criteria and assess, not later than September 30, 1981, the relative performance of each PSRO. Based on this assessment, the Secretary was authorized to terminate up to 30 percent of existing PSRO's. The total number of operational PSRO's was reduced from 187 in May 1981 to 148 in April 1982.

Public Law 97-35 also provided for the optional use of PSRO's under State medicaid plans. States may contract with PSRO's for the performance of required review activities; 75 percent Federal matching is available for this purpose.

Proposal.—The administration proposal would eliminate the PSRO program.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay increases	20	30	45

b. Utilization review

Current law.—Under current law, utilization review (UR) must be performed in hospitals and skilled nursing facilities which are not under PSRO review.

Proposal.—The administration proposal would delete the UR requirements.

Effective date.—Enactment.

	Fiscal year—		
	1983	1984	1985
Outlay savings	0	0	0

2. Delay Initial Eligibility Date for Medicare Entitlement

Current law.—Under current law, eligibility for medicare begins on the first day of the month in which an individual reaches age 65.

Proposal.—The administration proposal would defer eligibility for both parts A and B of medicare until the first day of the month following the month the individual reaches age 65.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	145	183	217

3. Modify Coverage of Working Aged

Current law.—The Federal Age Discrimination in Employment Act (ADEA) prohibits employment bias on the basis of age between 40 and 70 for most workers in the private sector. However, the ADEA regulations permit an employer to "carve-out" from his health plan those benefits that are actually paid for by medicare. The employer's plan pays only for those expenses it insures against that are not paid for under the Government's program. As an alternative, an employer can offer employees eligible for medicare a separate plan that supplements medicare. However, the employer must assure: (1) that the costs of such a plan are not less than what would be expended to include such individuals in the regular employer plan with a medicare "carve-out", and (2) that the supplemental plan provides benefits that are not less favorable than an employee eligible for medicare would receive under the employer's regular plan for other workers. The regulations further provide that, if the employer's regular plan requires no employee contribution or an amount less than that required for part B coverage under medicare, the employer must pay or contribute toward the part B contribution so as to make the total benefits available no less favorable for employees over 65 than for workers under 65.

Proposal.—The administration proposal would require employers to offer employees aged 65 through 69 and their dependents the same health benefit plan offered to younger workers and make medicare the secondary payer to those plans for such employees and their aged spouses. Benefits would be coordinated by reducing

medicare payments for any item or service furnished to an employee (or his spouse) if the combined payment under medicare and the employer's health benefits plan would otherwise exceed, for items or services reimbursed on a cost basis, their reasonable cost, or, for items or services reimbursed on a charge basis, the higher of medicare's reasonable charge or the amount allowable under the employer health benefits plan. In no case would medicare pay more than what medicare would otherwise have paid.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	610	700	790

Alternative effective date.—January 1, 1983.

	Fiscal year—		
	1983	1984	1985
Outlay savings	460	700	790

4. Reduce Hospital Costs by 2 Percent

Current law.—Under current law, medicare reimburses hospitals on the basis of "reasonable costs." The Secretary of Health and Human Services issues regulations establishing the methods to be used and the items to be included in determining the reasonable cost of covered hospital care.

Proposal.—The administration proposal would provide for payment of 98 percent of the reasonable costs of inpatient hospital services.

Effective date.—July 1, 1982.

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	Fiscal year—		
	1983	1984	1985
Outlay savings	653	850	950

5. Require Minimal Copayments on Home Health Services Under Medicare

Current law.—Under current law, no coinsurance is required of medicare beneficiaries who use home health services.

Proposal.—The administration proposal would impose a specified copayment amount (recalculated annually) for all home health visits. The copayment amount (which would be uniform nationwide) would be equal to five percent of the estimated average reasonable cost per visit.

Effective date.—January 1, 1983.

	Fiscal year—		
	1983	1984	1985
Outlay savings	35	65	75

6. Eliminate Waiver of Provider Liability for Certain Uncovered Medicare Services

Current law.—Under current law payment may be made to an institutional provider of services under medicare for certain uncovered or medically unnecessary services furnished to an individual, if the provider could not have known that payment would be disallowed for such items or services. Hospitals, skilled nursing facilities, and home health agencies participating in medicare are presumed to have acted in good faith, if their total denial rate on medicare claims is less than certain prescribed levels.

Proposal.—The administration proposal would eliminate the waiver of liability provision for medicare providers of services. Providers would be prevented from billing a medicare beneficiary for such services if the beneficiary were not at fault.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	10	10	10

7. Reimburse Inpatient Radiology and Pathology Services at 80 Percent of Reasonable Charges

Current law.—Under current law, reimbursement is made under part B of medicare for 100 percent of the reasonable charges for radiology and pathology services furnished directly to hospital inpatients by physicians, provided such physicians accept assignment of claims. Such services are not subject to the usual deductible or coinsurance features of the part B program.

Proposal.—The administration proposal would eliminate the special 100 percent reimbursement rate for inpatient radiology and pathology services. Medicare would pay the same rate as for other physician services, i.e., 80 percent of reasonable charges (after satisfaction of the annual deductible).

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	160	210	250

8. Postpone Physician Fee Screen Update

Current law.—Under current law, year-to-year increases in the charges billed by physicians that are recognized for reimbursement purposes (as "reasonable charges") under part B of medicare are limited by customary and prevailing charge screens which are updated every July 1.

Proposal.—The budget proposal would postpone the July 1, 1982, update of both screens to October 1, 1982, and would establish all future updates on October 1 of each year.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	210	235	230

9. Index Part B Deductible to Consumer Price Index

Current law.—Public Law 97-35 increased the part B deductible from $60 to $75 beginning in calendar year 1982. Previously, the deductible had remained at the $60 level since 1973.

Proposal.—The administration proposal would index the part B deductible to the Consumer Price Index (CPI) beginning in calendar year 1983. The deductible would equal $75 multiplied by the ratio of the CPI for all urban consumers (U.S. city average) for the preceding July to such CPI for July 1981. As a result, the deductible is estimated to be $85 in 1983, $89 in 1984, $93 in 1985.

Effective date.—January 1, 1983.

	Fiscal year—		
	1983	1984	1985
Outlay savings	50	115	205

10. Limit Increase in the Economic Index Used to Determine Physician Fees to 5 percent

Current law.—Under current law, annual increases in prevailing charge screens (used to calculate reasonable charges for physician services) cannot exceed annual increases in the economic index. The economic index reflects increases in input costs for physicians' services and general earnings increases. The increase anticipated for July 1, 1982 is 8.9 percent.

Proposal.—The administration proposal would impose a one-time limit on the rate of increase in the economic index. The increase currently slated to go into effect July 1, 1982 (but deferred to October 1, 1982, under Item No. 8 above) could not exceed 5 percent.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	35	45	55

11. Repeal of Certain 1980 Reconciliation Act Changes in Medicare Program

a. Comprehensive outpatient rehabilitation facilities

Current law.—Sec. 933 of the Omnibus Reconciliation Act of 1980 (P.L. 96-499) amended the medicare program to recognize comprehensive outpatient rehabilitation facilities as providers of service under part B. Proposed regulations implementing this provision were published May 10, 1982.

Proposal.—The administration proposal would repeal this provision.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	15	17	20

b. Physical therapy services

Current law.—Section 935 of Public Law 96-499 raised, effective January 1, 1982, the amount of incurred reasonable charges for outpatient physical therapy services provided by physical therapists in independent practice which may be allowed under part B from $100 to $500 annually.

Proposal.—The administration proposal would repeal this provision.

Effective date.—January 1, 1983.

	Fiscal year—		
	1983	1984	1985
Outlay savings	4	4	5

12. Eliminate Funding for End-Stage Renal Disease (ESRD) Networks

Current law.—Under current law, a system of end-stage renal disease networks has been designated to perform a variety of functions in connection with the end-stage renal disease program under medicare (e.g., developing criteria and standards for quality patient care).

Proposal.—The administration proposal would eliminate funding for end-stage renal disease networks and make the national ESRD medical information system discretionary with the Secretary.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	5	5	5

13. Eliminate Funding for State Facility Reviews Under Section 1122

Current law.—Under current law, the Secretary of Health and Human Services is required to pay from the Hospital Insurance (part A) Trust Fund certain expenses associated with health facility planning activities under section 1122 of the Social Security Act. Section 1122 authorizes the Secretary to exclude from medicare reimbursement to providers amounts in connection with large capital expenditures if these expenditures have not been approved by the designated State or local planning agency.

Proposal.—The administration proposal would modify the section 1122 program by eliminating medicare funding for section 1122 activities.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	10	10	10

14. Modify Medicare Contracting

Current law.—Under current law, medicare contracts with intermediaries and carriers to perform the day-to-day operational work of the program including reviewing claims and making program payments.

Proposal.—The administration proposal would increase the Secretary's discretion in entering into agreements for medicare claims processing by (1) eliminating the right of providers of services to nominate intermediaries, (2) permitting the Secretary to enter into various kinds of agreements, not solely those based on cost, and (3) broadening the Secretary's authority to experiment with different kinds of contracts by including contracts other than fixed price or performance incentive contracts and by permitting waiver of competitive bidding requirements. The section would also require new intermediaries, as well as carriers, to be health insurance organizations.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay changes	+1.1	−.4	−6.2

B. MEDICAID

1. Require Beneficiary Copayments

Current law.—Under current law, States are not permitted to impose cost-sharing charges on mandatory services provided to the categorically needy. They are permitted, but not required, to impose such charges on all services for the medically needy and on optional services for the categorically needy. All cost-sharing charges must be nominal in amount.

Proposal.—The administration proposal would delete the prohibition on cost-sharing for mandatory services provided to the categorically needy and would require that cost-sharing charges be reasonable (rather than nominal as required under current law). The proposal would mandate the imposition of the following copayment amounts:

- For the categorically needy, $1 per visit for physician, clinic, and hospital outpatient department services;

- For the medically needy, $1.50 per visit for physician, clinic, and hospital outpatient department services;
- For the categorically needy, $1 per day for inpatient hospital services;
- For the medically needy, $2 per day for inpatient hospital services.

These mandatory copayment amounts could be adjusted periodically by the Secretary. The State plan would not be required to provide for copayments for services furnished (1) to inpatients in medical institutions who are required to spend, except for a personal needs allowance, all their income for medical expenses, or (2) by an HMO to its enrolled members.

Effective date.—October 1, 1982 (delay permitted when State implementing legislation required).

	Fiscal year—		
	1983	1984	1985
Outlay savings	250	275	305

2. Reduce Medicaid Matching Rate for Specific Services and Persons

Current law.—Under current law, the Federal Government currently matches State medicaid expenditures for services—from 50 percent to 78 percent depending on the per capita income of the State.

Proposal.—The administration proposal would require a 3 percentage point reduction in each State's matching rate for all services for the medically needy and for optional services for the categorically needy.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	600	670	740

3. Eliminate Matching Rate for Medicare Part B "Buy-In"

Current law.—Most State medicaid plans pay the monthly medicare part B premium payment for their dual eligibles under a "buy-in" agreement. While States may buy-in to medicare for both their cash assistance and medically needy populations who are eligible for medicare, Federal matching for premium payments is

only available for the cash assistance group. If a State does not buy in to part B coverage, it cannot receive Federal matching payments for services that would have been covered under Medicare if there had been a buy-in arrangement. Four States and two jurisdictions do not currently have a buy-in arrangement. These are: Alaska, Louisiana, Oregon, Wyoming, the Northern Mariana Islands, and Puerto Rico. Alaska's buy-in agreement becomes effective October 1, 1982.

Proposal.—The administration proposal would eliminate Federal matching for the premium buy-in.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	203	216	230

4. Eliminate Special Matching Rates

Current law.—The Federal Government helps States share in the costs of medicaid services by means of a variable matching formula, periodically adjusted, which presently ranges from 50 percent to 78 percent. However, family planning services are currently matched at 90 percent in all States.

Generally, administrative costs are matched at 50 percent except for certain items where the authorized rate is higher. For example, 75 percent Federal matching is available for the compensation and training of skilled medical personnel and supporting staff.

Proposal.—The administration proposal would eliminate the special matching rate for family planning services. It also proposes lowering the matching for compensation and training of personnel who conduct surveys of long-term care facilities to 50 percent. All other administrative costs except costs incurred by State fraud control units would be subsumed in the combined administrative block grant. (See Item 5 below.)

Effective date.—July 1, 1982 with respect to family planning services. October 1, 1982 with respect to State survey activities.

	Fiscal year—		
	1983	1984	1985
Outlay savings:			
Family planning	55	60	70
State survey	9	10	11

5. Establish Combined Welfare Administration Block Grant

Current law.—The Federal Government currently provides matching funds for the cost incurred by the States in the administration of medicaid, AFDC, and food stamps.

Proposal.—The administration is proposing a combined payment for the costs incurred by State and local welfare agencies in administering these three programs. The new block grant program would be capped at $2.2 billion which the administration estimates is approximately 95 percent of the fiscal year 1982 Federal share of administrative expenses.

Effective date.—October 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	218	284	393

6. Reduce Error Rate Tolerance

Current law.—Under an amendment to the 1980 Appropriations Act, States were required to reduce their error rates for eligibility determinations to 4 percent by Sept. 30, 1982. States whose error rates exceed the target figure are subject to a penalty reduction. The administration has indicated that the current average error rate is 5.0 percent for medicaid.

Proposal.—The administration proposes to require States to achieve a zero percent error rate by fiscal year 1986. The current fiscal year 1983 target would be reduced to 3 percent, the fiscal year 1984 target would be 2 percent, and the fiscal year 1985 target would be 1 percent. Errors are defined as including both payments for ineligibles and overpayments.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	59	130	225

7. Reduce 4-Month Eligibility Extension

Current law.—Under current law, medicaid coverage must be extended for 4 additional months to certain families whose AFDC cash assistance has been terminated provided they had received AFDC for at least 3 of the preceding 6 months; this extension only

applies to families whose AFDC coverage has been terminated due to increased income from employment or increased hours of employment.

Proposal.—The administration proposes to reduce the extension to 30 days.

Effective date.—July 1, 1982 (except delay permitted where State legislation required).

	Fiscal year—		
	1983	1984	1985
Outlay savings	75	85	95

8. Modify Lien Provisions

Current law.—Under current law, States are barred from imposing any lien against any recipient's property prior to his death because of claims paid or to be paid on his behalf unless placed as a result of a court judgment. In the case of individuals under age 65 no adjustments or recoveries can be made for medicaid claims correctly paid. In the case of individuals over 65, adjustments and recoveries for correctly paid claims can only be made from his estate after the individual's death and only (1) after the death of his surviving spouse; and (2) where there are no surviving children who are: under 21, blind, or disabled.

Proposal.—The administration proposal would allow earlier recoupment for long-term care costs. States could only take such actions where the property is no longer needed by the recipient, spouse, or minor children. States would be allowed to attach the real property of medicaid recipients who are permanently institutionalized in nursing homes or other long term care medical institutions. They could recover the cost of medical assistance provided to the recipient only when the property is no longer needed by the recipient, spouse or minor children.

The administration proposal would also allow States to deny medicaid eligibility temporarily to patients in medical institutions who dispose of a home for less than fair market value, even though such disposal would not make them ineligible for supplemental security income (SSI). States could either deny eligibility to all such individuals for periods reasonably related to the uncompensated value, or could deny eligibility in all cases for a minimum of 24 months, with the option to provide for longer periods of ineligibility in the case of individuals who disposed of homes worth substantial amounts. The provision would not apply in the case of individuals who reasonably expected to be discharged from the medical institution and return home; individuals who demonstrated that they had intended to obtain fair market value or other valuable consideration in exchange for their homes; or individuals who transferred title to their homes to a spouse or a minor or handicapped child.

The State could also make an exception in other cases where undue hardship would otherwise result.

Effective date.—The provision pertaining to liens would be effective July 1, 1982, the transfer of assets section would be effective on enactment.

	Fiscal year—		
	1983	1984	1985
Outlay savings	183	200	221

9. Eliminate Utilization Review and PSRO's

Current law.—Under current medicaid law, utilization review must be conducted in institutional settings. Further, State plans are required to establish a program of utilization controls over extended stays in such facilities. Public Law 97-35 provided that States could, at their option, contract with Professional Standards Review Organizations (PSRO's) to perform required medicaid review activities; 75 percent Federal matching is available for this purpose.

Proposal.—The administration proposal would eliminate PSRO and utilization review requirements. Also proposed for repeal is the penalty for States which fail to establish an adequate program of utilization controls.

Effective date.—Enactment; repeal of penalty provision and the PSRO program, effective July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	5	5	5

10. Impact of Changes in Other Programs

The administration is proposing several changes in AFDC and SSI which will reduce caseloads in these two programs. Since medicaid eligibility is linked to eligibility for AFDC and SSI, medicaid savings are also anticipated. Certain changes in the medicare program would also result in net medicaid savings.

	Fiscal year—		
	1983	1984	1985
Outlay savings:			
AFDC changes	−153	−170	−190
SSI changes	−176	−328	−527
Medicare changes (net)	−14	−9	−2
Delay entitlement	(+14)	(+18)	(+21)
Hosp. 2 percent reimb.	(−35)	(−39)	(−45)
Rad/path reimb.	(+15)	(+15)	(+20)
Update fee screens	(−10)	(−11)	(−13)
Index deductible	(+4)	(+10)	(+17)
Limit econ. index	(−2)	(−2)	(−2)

SUMMARY CHART—OTHER LEGISLATIVE PROPOSALS

Health Program Outlay Changes

[In millions of dollars]

	Fiscal year—		
	1983	1984	1985
Medicare:			
1. Repeal routine nursing salary cost differential...	−95	−110	−125
2. Provide for no increase in physician fee economic index	−280	−410	−480
3. Modify reasonable charges for outpatient services	−195	−260	−310
4. Apply home health copayments on and after 20th visit	−100	−165	−190
5. Hold part B premium constant as a percentage of program costs	−36	−204	−499
6. Modify reimbursement of hospital-based physicians	−63	−73	−84
7. Contract for utilization and quality control peer review	−15	−15	−20
8. Limit medicare reimbursement to hospitals:			
a. Expansion of 223 limits b. 3-year limit on reimbursement increases	−650	−2,000	−3,500
c. Prospective payments			
Medicaid:			
1. Allow minimal medicaid copayments	−45	−50	−56
2. Reduce error rate tolerance to 3 percent	−59	−65	−72

II. Legislation—Other Proposals

A. MEDICARE

1. Repeal Routine Nursing Salary Cost Differential

Current law.—Under a regulatory policy adopted in July 1969, hospitals and skilled nursing facilities are reimbursed for routine costs at a rate that includes a nursing salary cost differential.

The 1981 Omnibus Reconciliation Act reduced the differential for hospitals from 8½ percent to 5 percent.

Proposal.—The proposal would eliminate the 5 percent routine nursing salary cost differential for hospitals and SNF's.

Effective Date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	95	110	125

2. Provide for No Increase in Physician Fee Economic Index

Current law.—Under current law, annual increases in prevailing charge screens (used to calculate reasonable charges for physician services) cannot exceed annual increases in the economic index. The economic index reflects increases in input costs for physicians' services and general earnings increases. The increase anticipated for July 1, 1982 is 8.9 percent.

Proposal.—The proposal would prohibit an increase in the economic index in fiscal year 1983 and permit a 5 percent increase in the index in fiscal year 1984.

Effective Date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	280	410	480

3. Modify Reasonable Charges for Outpatient Services

Current law.—Under current law, physicians are reimbursed on the basis of their reasonable charges. Medicare pays 80 percent of reasonable charges after the $75 deductible is satisfied.

When a physician bills for services rendered under medicare part B, he is paid the same amount, whether the service was rendered in his office or in a hospital outpatient department. However, while a physician pays for his office overhead (e.g., rent, utilities, nursing staff, records), similar costs in the outpatient department are covered by the hospital's reimbursement under medicare part A.

Proposal.—The administration has proposed a regulatory initiative which would reduce reimbursement for physician services in hospital outpatient departments to take into account the fact that the hospital overhead is not an expense to the physician; the hospital is reimbursed for these overhead costs by the medicare program directly. The proposal would achieve the objectives of the proposed regulation through an amendment to the statute which would also make it clear that the proposed payment policy would apply to the charges of teaching physicians on the same basis as other physicians.

Effective Date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	195	260	310

4. Apply Home Health Copayments On and After 20th Visit

Current law.—Under current law, an unlimited number of home health visits are covered without a deductible or coinsurance. Public Law 96-499 eliminated the requirement, effective July 1, 1981, that home health services covered under part B be subject to the annual deductible. The law also removed the 100-visit limit under parts A and B on the number of home health visits that medicare will cover.

Proposal.—The proposal would apply a 20 percent copayment on each home health visit beginning with the 20th visit. The copayment amount will equal 20 percent of the estimated average reasonable cost of a home health service, adjusted for type of service and geographic area.

Effective Date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	100	165	190

5. Hold the Part B Premium Constant as a Percentage of Program Costs

Current law.—Under current law, the monthly premium for all part B enrollees since June 1973 has been set at the lessor of (1) one-half the total benefit and administrative costs to be incurred for enrollees age 65 or over, plus a small contingency reserve, i.e., the actuarial rate per aged enrollee, or (2) the most recent premium rate increased by the percentage by which monthly cash benefits increased during the year prior to the year to which the rate applies, i.e., the standard rate. Since 1974 the actuarial rate per aged enrollee has increased from $6.30 per month to $22.60 per month. The standard rate, however, only increased from $6.30 to $11.00. As a result, part B premiums as a percent of program costs for all enrollees, aged and disabled, has declined from 47 percent to less than 24 percent. For the year ending June 30, 1983, the ratio of premiums to incurred costs per aged enrollee is expected to be 24.8 percent. The ratio of premium payments to estimated incurred costs per disabled enrollee is expected to be 14 percent.

Proposal.—This proposal would hold the percentage of program costs paid by aged enrollees to a constant percent of program costs. As under present law, disabled enrollees would pay the same premium as aged enrollees.

Effective date.—July 1, 1983.

	Fiscal year—		
	1983	1984	1985
Outlay savings*	36	204	499

*Preliminary estimate.

6. Modify Reimbursement of Hospital-Based Physicians

Current law.—Under current law and under regulations which have largely been unenforced, services furnished by a physician to medicare hospital patients are reimbursed on the basis of reasonable charges under part B, only if such services are identifiable professional services to patients that require performance by physi-

cians in person which contribute to the diagnosis or treatment of an individual patient. All other services, for example, lab supervision, performed for the hospital by hospital-based physicians (e.g., radiologists, anesthesiologists, pathologists) are to be reimbursed under part A of medicare on the basis of reasonable costs. The Department has proposed that the regulations in question should be reissued as a first step in implementing these policies.

Proposal.—The proposal would achieve through legislation the objectives of the administration regulatory proposal described also in section III.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	63	73	84

7. Contract for Utilization and Quality Control Peer Review

Current law.—Under current law, Professional Standards Review Organizations (PSRO's) are charged with the ongoing review of services provided under medicare and medicaid. PSRO's, where established, determine, for purposes of reimbursement under these programs, whether services are: (1) medically necessary; (2) provided in accordance with professional standards; and (3) in the case of institutional services, rendered in the appropriate setting. The Omnibus Budget Reconciliation Act of 1981, P.L. 97-35, required the Secretary to develop PSRO performance criteria and assess, not later than September 30, 1981, the relative performance of each PSRO. Based on this assessment, the Secretary was authorized to terminate up to 30 percent of existing PSRO's. The total number of operational PSRO's was reduced from 187 in May 1981 to 148 in April 1982.

Public Law 97-35 also provided for the optional use of PSRO's under State medicaid plans. States may contract with PSRO's for the performance of required review activities; 75 percent Federal matching is available for this purpose.

Proposal.—This proposal would require the Secretary to enter into contracts with peer review organizations for an initial period of two years, renewable biennially, for the purpose of promoting the effective, efficient, and economical delivery of quality health care services under medicare. The organizations must be composed of, or have available to them, a substantial number of licensed doctors of medicine or osteopathy actually practicing in the area. These organizations, which can be for profit or nonprofit, would review the professional activities of physicians, other practitioners and institutional and noninstitutional providers in providing services to medicare beneficiaries. The review would focus on (1) the ne-

cessity of care, (2) quality of care, and (3) the appropriateness of the setting.

After the date of enactment the Secretary would consolidate geographic areas served by review organizations. In general, each State would be designated as a geographic area. Local or regional areas could be designated only if the volume of review warrants it.

The proposal provides that where the Secretary fails to act on the sanction recommendation of a review organization within 120 days, the practitioner or provider in question will be excluded from medicare reimbursement until the Secretary determines otherwise.

The proposal modifies the waiver of liability provision of present law under which hospitals and other providers of services may receive payments for medically unnecessary care under certain circumstances. Under the proposal the review organization would have authority to limit applicability of a waiver of liability granted by an intermediary or carrier so that payment would be denied for services that are part of a pattern of inappropriate utilization which the provider has had an opportunity to correct but has failed to do so.

An organization, in carrying out its functions under contract will not be considered a Federal agency for purposes of the provision of the Freedom of Information Act.

A requirement has been included whereby the organization would make available its facilities and resources to private payors paying for health care in its area on a contract basis. The proposal continues to require medicare providers to release medical records of medicare patients and requires the release of the same type of information on private patients if so authorized, to allow the review organization to carry out its functions under contract with medicare or with a private payor.

The States may choose to use these organizations or any others to review their patients. The Federal Government will provide a 75 percent match for the cost of the review of medicaid patients.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	15	15	20

8. Limit Medicare Reimbursement to Hospitals

a. Expansion of 223 limit to include ancillary costs

Current law.—Under present law, medicare reimbursement for a hospital's inpatient routine operating costs (i.e., bed, board, and routine nursing) may not exceed a limit based on similar costs incurred by comparable hospitals. Under this limitation, a hospital may not be paid more than 108 percent of the average routine cost

per day incurred by other hospitals of the same type unless it qualifies for an exception or exemption.

Proposal.—The proposal would modify the above limitation on reimbursement by: (1) extending it to include ancillary costs (i.e., lab services, X-rays, drugs and similar hospital services); (2) increasing the current limit from 108 percent to 110 percent; (3) applying the limitation on an average costs-per-discharge basis; and (4) adjusting each hospital's limit to take into account of the needs of its patients in comparison to those of other hospitals with which it is being compared.

Effective date.—Hospital accounting periods beginning on or after October 1, 1982.

b. 3-year limit on hospital reimbursement increases

Current law.—Under present law, there is no limitation on the percentage by which a hospital's reimbursable costs may increase from year to year.

Proposal.—The proposal would provide that medicare would not reimburse a hospital for operating costs incurred in any of the first three of its cost-reporting periods beginning on or after October 1, 1982, to the extent that they increase in excess of a specified percentage (approximately 10 percent), compounded, of the previous year's costs.

For example, if a hospital reports its costs to medicare on a calendar-year basis, its allowable costs per patient discharge in 1983 could not increase more than 10 percent (approximately) over its allowable cost per discharge in 1982. Similarly, its cost ceiling per discharge for 1984 and 1985 could not increase in excess of 10 percent (approximately) above the cost ceiling for the preceding year.

The specified percentage increase that would be allowed would be calculated by adding 2 percentage points to the percentage by which there was an increase in the wages and prices that hospitals must pay in order to operate. This limit on medicare reimbursement would expire at the end of the hospital's third post-September 30, 1982, reporting period, unless a prospective payment system was put into place prior to that time, in which case the limit on medicare reimbursement would cease upon implementation of the new system.

Effective date.—Reporting periods beginning on or after October 1, 1982 (but not to exceed three such reporting periods).

c. Prospective payments for hospitals and skilled nursing facilities

Current law.—Under present law, hospitals and skilled nursing facilities are paid on the basis of the costs they incur in caring for medicare patients. While the above-described limits in present law tend to penalize some inefficient institutions, no provision is made to allow efficient institutions to make a profit also, the amount of a hospital's reimbursement cannot be accurately determined until sometime after the close of the cost report period in which the costs were incurred. Therefore, hospitals are restricted in their ability to do financial planning.

Proposal.—The proposal would direct the Department of Health and Human Services to develop, in consultation with the Senate Finance Committee and the House Ways and Means Committee, leg-

islative proposals under which hospitals, skilled nursing facilities, and, if feasible, other providers, would be paid on the basis of prospectively set fixed rates. The Department would be required to report its recommendations to these committees no later than 1 year after the date of enactment.

	Fiscal year—		
	1983	1984	1985
Outlay savings*	650	2,000	3,500

*Preliminary estimates.

B. MEDICAID

1. Allow Minimal Medicaid Copayments

Current law.—Under current law, States may require certain beneficiaries to share some Medicaid costs by imposing enrollment fees, premiums, deductibles, coinsurance, copayments and other cost sharing charges. All charges must be nominal. States which have used this option generally impose coinsurance on prescription drugs, vision services, and dental services.

Services	Categorically needy	Medically needy
Optional	Nominal charges allowed	Nominal charges allowed.
Mandatory	Charges not allowed	Nominal charges allowed (not imposed).

Proposal.—The proposal would allow States to impose nominal copayments on all medicaid beneficiaries (both categorically and medically needy) for all services except ambulatory services for children and pregnant women.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	45	50	56

2. Reduce Error Rate Tolerance to 3 Percent

Current law.—Under an amendment to the 1980 Appropriations Act, States were required to reduce their error rates for eligibility determinations to 4 percent by September 30, 1982. States whose error rates exceed the target figure are subject to a penalty reduction. The administration has indicated that the current average error rate is 5.0 percent for medicaid.

Proposal.—This proposal would require States to reduce their error rates to 3 percent, beginning in fiscal year 1983. Errors are defined as including both payments for ineligibles and overpayments.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	59	65	72

SUMMARY CHART—ADMINISTRATION REGULATORY INITIATIVES

Health Program Outlay Changes

[In millions of dollars]

	Fiscal year—		
	1983	1984	1985
Medicare:			
1. Eliminate private room subsidy	−54	−75	−80
2. Establish single reimbursement limit for SNF and HHA services	−18	−46	−46
3. Initiate HCFA/private sector UR	−330	−385	−440
4. Modify reimbursement of hospital-based physicians	−63	−73	−84
5. Implement composite rate for renal dialysis services	−130	−179	−224
6. Eliminate duplicate payments for outpatient services	−160	−225	−270
Subtotal	−755	−983	−1,144
Medicaid:			
1. Allow states to require family supplementation	−29	−35	−41
Total, regulatory savings	−784	−1,018	−1,185

III. Regulatory Initiatives—Administration Proposals

A. MEDICARE

1. Eliminate Private Room Subsidy

Current law.—Under current law, medicare covers semiprivate room accommodations in a hospital, except where private accommodations are medically necessary or where semiprivate accommodations are occupied or unavailable. Medicare reimburses for such services on the basis of allowable reasonable cost.

Proposal.—The administration proposal indicates the intent, through regulatory initiative, to eliminate an indirect subsidy of the extra costs of private rooms. This would be accomplished by subtracting from a hospital's allowable costs the estimated differential costs for private rooms over semiprivate rooms. The decrease in reimbursement could not be passed along to beneficiaries.

Effective date.—July 1, 1982.

	Fiscal year:—		
	1983	1984	1985
Outlay savings	54	75	80

2. Establish Single Reimbursement Limit for Skilled Nursing Facility (SNF) and Home Health Agency (HHA) Services Under Medicare

Current law.—Under current law, the Secretary is authorized to set prospective limits on the costs of provider services under medicare on the basis of estimates of the costs necessary for the efficient delivery of needed health services. Allowable costs for services provided by skilled nursing facilities (SNF's) and by home health agencies (HHA's) generally vary depending on whether the skilled nursing or home health services are delivered in hospital-based or in free-standing facilities. Current regulations provide separate payment limits for certain care rendered in each type of setting.

Proposal.—The administration proposal indicates the intent, through regulatory initiative, to establish a single limit that would be based on the cost experience of free-standing facilities. Providers would be permitted to apply for exceptions on the basis of legitimate cost differences.

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Effective date.—July 1, 1982 for HHA's, October 1, 1982 for SNF's, phased in with provider's cost accounting year.

	Fiscal year—		
	1983	1984	1985
Outlay savings	18	46	46

3. Initiate HCFA/Private Sector Utilization Review

Current law.—Under current law, contractors (intermediaries and carriers) are responsible for reviewing utilization of medicare reimbursable services in areas not reserved for PSRO review.

Proposal.—The administration proposal indicates the intent, through regulatory initiative, to establish objectives for medicare contractor activities and give medicare contractors greater responsibility for the identification and reduction of waste in the provision and use of health care services. These activities would be supplemented by similar activities by the private sector.

Effective date.—October 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	330	385	440

4. Modify Reimbursement of Hospital-Based Physicians

Current law.—Under current law and regulations, services furnished by a physician to medicare hospital patients are reimbursed on the basis of reasonable charges under part B, only if such services are identifiable professional services to patients that require performance by physicians in person and which contribute to the diagnosis or treatment of individual patients. All other services performed for the hospital by hospital-based physicians (e.g., radiologists, anesthesiologists, pathologists) are to be reimbursed under part A of medicare on the basis of reasonable costs.

Proposal.—The administration proposal indicates the intent, through regulatory initiative, to enforce this reimbursement policy.

Effective date.—April 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	63	73	84

5. Implement Composite Rate for Renal Dialysis Services

Current law.—Public Law 97-35 amended existing law to require the Secretary to prescribe regulations for prospectively determining the amounts of payments to be made for renal dialysis services. Separate composite weighted payments are to be calculated for hospital-based and for free-standing renal dialysis facilities.

Proposal.—The Department issued proposed implementing regulations on February 12, 1982. Average payment rates under the proposal are $128 for a free-standing facility and $132 for a hospital-based facility.

Effective date.—May 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	130	179	224

6. Eliminate Duplicate Payments for Outpatient Services

Current law.—P.L. 97-35 required the Secretary, to the extent feasible, to establish by regulation, limitations on costs or charges that will be considered reasonable for outpatient services provided by hospitals or clinics (other than rural health clinics) and by physicians utilizing these facilities.

Proposal.—The administration proposal indicates the intent, through regulatory initiative, to reduce reimbursement by refining application of medicare's customary and prevailing charge screens to more appropriately reflect reasonable charges for professional services provided in different locations (i.e., physician's offices and hospital outpatient departments).

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	160	225	270

B. MEDICAID

1. Allow States to Require Family Supplementation

Current law.—Under medicaid, adults are considered responsible for their minor children and spouses for each other. The income of children is not taken into account in determining medicaid eligibility of an aged parent. Further, the law defines as a felony instances where contributions are required as a condition of entry or continued stay in a hospital, skilled nursing facility, or intermediate care facility for patients whose care is financed in whole or in part by medicaid.

Proposal.—The administration would permit States which have laws of general applicability requiring family supplementation for welfare services to apply these requirements to adult children of institutionalized medicaid recipients.

Effective date.—July 1, 1982.

	Fiscal year—		
	1983	1984	1985
Outlay savings	29	35	41

Income Security Programs

TABLE 1.—INCOME SECURITY PROGRAMS: PRESENT LAW FEDERAL OUTLAYS (CBO ESTIMATES)

[Dollars in millions]

	Fiscal year—			Total
	1983	1984	1985	
I. Aid to families with dependent children (including WIN)	$7.7	$8.0	$8.4	$24.1
II. Child support enforcement	.6	.6	.7	1.9
III. Child welfare, foster care, and adoption assistance	.6	.6	.6	1.8
IV. Social services block grant	2.4	2.5	2.6	7.5
V. Supplemental security income	7.9	9.0	8.1	25.0
VI. Unemployment compensation (Federal share)	3.2	2.4	2.2	7.8
Total	22.4	23.1	22.6	68.1

TABLE 2.—FEDERAL SAVINGS IN INCOME MAINTENANCE PROGRAMS: ADMINISTRATION PROPOSALS (CBO ESTIMATES)

[Dollars in millions]

	Fiscal year—			Total
	1983	1984	1985	
I. Aid to families with dependent children	$1,144	$1,174	$1,317	$3,635
II. Child support enforcement	155	164	173	492
III. Child welfare block grant	190	235	280	705
IV. Social services block grant	476	526	626	1,628
V. Supplemental security income	248	423	611	1,282
VI. Unemployment compensation	36	63	60	159
Total	2,249	2,585	3,067	7,901

TABLE 3.—FEDERAL SAVINGS IN INCOME SECURITY PROGRAMS: CBO ESTIMATES

[Dollars in millions]

	Fiscal year—			Total
	1983	1984	1985	
I. Aid to families with dependent children:				
1. Round benefits	9	10	10	29
2. Prorate 1st month benefit	13	14	14	41
3. Eliminate military service as reason for AFDC	15	17	17	49
4. Refusal to work	1	1	1	3
5. Mandatory job search	9	19	20	48
6. CWEP/AFDC–UP	52	107	103	262
7. End parent benefit when child is 16	47	48	48	143
8. Include all minor children (except SSI)	63	64	64	191
9. Count income of unrelated adults	69	70	70	209
10. Repeal emergency assistance	60	60	60	180
11. Mandatory CWEP	15	22	23	60
12. Count energy assistance	30	33	36	99
13. Prorate shelter and utilities	174	177	178	529
14. Administrative costs block grant	106	181	261	548
15. Reduce Federal matching for errors	234	105	167	506
16. Repeal WIN	247	246	245	738
17–23. Miscellaneous	(*)	(*)	(*)	(*)
Total	1,144	1,174	1,317	3,635
II. Child support enforcement:				
1. Collection fee for non-AFDC families	45	51	59	155
2. Review State programs, modification of penalty	(*)	(*)	(*)	(*)
3. Increased use of locator service	(*)	(*)	(*)	(*)
4. Child-support allotments for Armed Forces	7	9	10	26
5. Restructure financing	100	100	100	300
6. Reimbursement of State agency	3	4	4	11
7. Child support in foster care cases	(*)	(*)	(*)	(*)
Total	155	164	173	492
III. Child welfare block grant	190	235	280	705
IV. Social services block grant	476	526	626	1,628
V. Supplemental Security Income:				
1. Prorate 1st month benefits	26	28	32	86
2. Round benefits	20	45	70	135
3. Eliminate $20 disregard	14	55	90	159
4. Require 24 month disability	30	60	90	180
5. Medical factors/disability	67	140	223	430
6. COLA coordination	45	41	43	129

TABLE 3.—FEDERAL SAVINGS IN INCOME SECURITY PROGRAMS: CBO ESTIMATES—Continued

[Dollars in millions]

	Fiscal year—			Total
	1983	1984	1985	
7. Hold harmless phaseout	30	37	45	112
8. Eligibility of aliens	(*)	(*)	(*)	(*)
9. Recover overpayments	16	17	18	51
Total	248	423	611	1,282
VI. Unemployment compensation:				
1. Round benefits	6	33	30	69
2. UC for ex-servicemen	30	30	30	90
Total	36	63	60	159

* Negligible.

I. Aid to Families With Dependent Children (AFDC)

1. Rounding of AFDC Eligibility and Benefit Amounts

Present law.—There is no provision in current law relating to the rounding of benefits.

Proposed change.—States would be required to round both their need standards and actual monthly benefit amounts to the lower whole dollar. (A similar proposal is also being made for the SSI program.)

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$9
1984	10
1985	10

2. Prorate First Month's Benefit Based on Date of Application

Present law.—Current regulations allow States to pay benefits beginning with the first day of the month in which an application is filed. At the present time 12 States have chosen to do this. States which do not begin payments with the first of the month must begin assistance no later than the date of authorization, or 30 days from the date the application is complete, whichever is earlier.

Proposed change.—States would be allowed to pay benefits beginning no earlier than the date an application is filed. Payment for the month's benefit would be prorated based on the date of application. A similar proposal is being made for the SSI program. An amendment to the Food Stamp Act requiring that the first month's food stamp benefit be prorated from the date of application was enacted in the 1981 Reconciliation Act.

Effective Date.—This provision is effective for applications filed on or after July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$13
1984	14
1985	14

3. Eliminate Military Service as Basis for AFDC Eligibility

Present law.—AFDC is payable to needy families if the need arises because a parent is absent from the home. This may include absence because of military duty. The administration estimates that about 10,000 families who are now receiving AFDC report that their need is caused by absence due to military service. Any income which these families may actually receive from the absent parent is counted in determining the family's benefit.

Proposed change.—The administration is proposing to exclude absence based solely on military duty as a basis for need. However, if the parent has left the home for other reasons, the family may still be eligible for assistance. In this case, as provided in present law, the custodial parent would have to assign to the State any rights to child support which have accrued.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$15
1984	17
1985	17

4. Refusal to Work

Present law.—Current regulations provide sanctions for AFDC recipients who are required to register for WIN if they voluntarily quit work, reduce earnings, refuse employment, or refuse a CWEP assignment. Sanctions may not be applied in the case of persons who are not currently required to register, including persons who are employed 30 hours or more a week, or who live in an area so remote from a WIN program that their participation is precluded.

Proposed change.—The administration's proposal would give the Secretary authority to prescribe in regulations the period for which a sanction could be imposed if an individual who is required to register for employment (or an individual who is exempt from registration because he is employed 30 hours or more a week, or lives in an area so remote from a WIN project that his participation is precluded): (1) refuses a bona fide offer of employment, (2) terminates employment, or (3) reduces his hours of employment, without good cause. In AFDC-UP families, assistance would be denied to the entire family. In other families, the individual who is sanctioned would be excluded from the family grant and protective payments would be made on behalf of the children.

Effective date.—This provision is effective July 1, 1982.
Estimated savings.—

Fiscal years:	Millions
1983	$1
1984	1
1985	1

5. Mandatory Job Search

Present law.—The Social Security Disability Amendments of 1980 included a provision specifically authorizing Federal matching for job search activities which are part of a State's work incentive program. Both the statute and the regulations provide sanctions if a recipient who is required to register for WIN and who has been certified as ready for employment refuses without good cause to participate in job search. In the case of the principal wage earner in an unemployed parent family, the sanction is denial of benefits for the entire family. In other cases, the individual who refuses is removed from the grant and the family's benefit is reduced. The sanction period is 3 months in the case of a first refusal and 6 months in the case of any subsequent refusals.

Proposed change.—Each State would have to include in its State plan the requirement that as a condition of eligibility, individuals required to register for employment and training will be required to participate in a program of employment search beginning at the time of application. The individual would be required to continue in a program of employment search after his application becomes effective whenever the State agency prescribes, but not more than a total of eight weeks each year (after the application becomes effective). An individual who refuses to comply with the requirement for employment search would be subject to the same penalties as an individual who refuses to comply with other work requirements.

The State would have to provide assurances to the Secretary that the employment search requirements were being complied with. There would have to be coordination between the employment search program and other programs to assure that priority is given to job placement over participation in another activity. Funding for the program would come out of the State's allotment for AFDC administrative expenses. If the proposed administrative costs block grant provision is not enacted, States would not be eligible to receive Federal funding for supportive services.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$9
1984	19
1985	20

Note.—These savings estimates are under revision by CBO and are expected to be increased substantially.

6. Provide Unemployed Parent Benefits Only if Principal Earner Is Participating in CWEP or Other Employment Program

Present law.—States have the option of providing AFDC benefits to families in which the parent who is the principal wage earner is unemployed. At the present time, 21 States plus the District of Columbia and Guam are operating AFDC-unemployed parent programs providing benefits to about 243,000 families (March 1982). AFDC–UP families are eligible for benefits without regard to whether the principal wage earner is participating in a community work experience program. However, benefits for the family are terminated if the parent refuses to register for WIN, or if he refuses without good cause to accept employment or training which he is offered, or refuses to participate in a CWEP project.

[The States with unemployed parent programs are shown below:]

California	Kansas	New York
Colorado	Maryland	Ohio
Connecticut	Massachusetts	Pennsylvania
Delaware	Michigan	Rhode Island
D.C.	Minnesota	Vermont
Guam	Montana	West Virginia
Hawaii	Nebraska	Wisconsin
Illinois	New Jersey	

Proposed change.—States would be prohibited from providing AFDC-unemployed parent benefits to the family unless the principal earner is participating in a CWEP, work supplementation, employment search, or other employment or training program.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$52
1984	107
1985	103

7–9. Composition and Counting of Income of an AFDC Family

Present law.—The AFDC statute does not provide a definition of what constitutes an AFDC family. The law and regulations establish certain limitations on who may be included in the family unit, and whose income and resources may be considered in determining eligibility.

Proposed changes.—The administration is proposing to define in the statute those people whose needs must and must not be included in determining a family's AFDC benefit, and to establish rules for counting as available to the AFDC unit the income of certain individuals who are not in the family unit. The impact of these rules would vary among affected families depending on the income of the individual.

Following are the basic changes from present law and regulations which would be made by the administration's new statutory language:

7. *Eligibility of a parent.*—Current law permits States to include the needs of a parent or caretaker relative in determining the AFDC benefit so long as there is an eligible child. The child is permitted to retain eligibility to age 18 (or 19 if the child is in school and is expected to complete his course of study before reaching his 19th birthday).

The administration is proposing to require States to include the needs of a parent, but only until the youngest child reaches age 16. The income and resources of the ineligible parent would be counted in determining the benefit for the child. The State would have the option of continuing to include the need of a parent of an older eligible child if the parent is unemployable.

Estimated savings.—

Fiscal years:	Millions
1983	$47
1984	48
1985	48

8. *Eligibility of a child.*—Current law permits families to exclude a child from the assistance unit if that child has income which would reduce the amount of the family's benefit.

The administration is proposing to require States to include all children in the family unit (except children receiving SSI, and stepbrothers and stepsisters).

In addition, under current law the income of parents of a minor child who is herself the parent of a child is not counted in determining the eligibility and benefit of the grandchild.

The administration is proposing to require States to count the income of the grandparents who are living in the same household as available to the grandchild, after setting aside certain amounts to cover their needs and the needs of their child. The AFDC payment would be made to the grandparent.

Estimated savings.—

Fiscal years:	Millions
1983	$63
1984	64
1985	64

9. *Counting of income of unrelated individuals.*—Currently, the income of an unrelated adult in an AFDC household may not be presumed to be available to the household, and the welfare agency may count only actual contributions which it knows have been made by the individual to the AFDC family.

The administration is proposing to require States to count the income of unrelated adults who are living in the same household as available to the AFDC family, after setting aside certain amounts to cover the needs of the unrelated adult and any dependents.

Estimated savings.—

Fiscal years:	Millions
1983	$69
1984	70
1985	70

Effective date.—All three of the above provisions are effective July 1, 1982.

10. Repeal Emergency Assistance Program

Present law.—The emergency assistance program provides 50 percent matching for emergency assistance (in the form of cash, medical care, or services) to families with children under a State's AFDC plan. Assistance may be provided for no more than 30 days in any 12 month period. The program was enacted in 1967, and is optional with the States. In December 1980, 27 jurisdictions had established an emergency assistance program:

Arkansas	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Delaware	Missouri	Puerto Rico
District of Columbia	Montana	Virgin Islands
Illinois	Nebraska	Virginia
Kansas	New Jersey	Washington
Kentucky	New York	West Virginia
Maryland	Ohio	Wisconsin
Massachusetts	Oklahoma	Wyoming

Proposed change.—The administration proposes to repeal the emergency assistance program. Legislation has been proposed to make emergency assistance an allowable use under the Low-Income Home Energy Assistance Block Grant.

Effective date.—This provision is effective October 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$60
1984	60
1985	60

11. Require States to Establish Community Work Experience (CWEP) Programs

Present law.—Under present law, AFDC recipients who meet certain criteria of employability are required to register for participation in the Work Incentive [WIN] program. Prior to last year, WIN was the only specifically authorized AFDC employment program. In the 1981 Reconciliation Act, States were given the authority to establish community work experience programs under which AFDC recipients could be required to work in projects "which serve a useful public purpose" in exchange for their AFDC benefits.

The Reconciliation Act of 1981 also included a provision authorizing States to operate 3-year demonstration programs as alternatives to the current WIN program. The demonstration is aimed at testing single-agency administration and must be operated under the direction of the welfare agency. The legislation includes broad waiver authority.

In addition, the 1981 Reconciliation Act included a provision under which States are permitted to use any savings from reduced AFDC grant levels to make jobs available on a voluntary basis. Under this approach (work supplementation), recipients may be given a choice between taking a job or depending upon a lower AFDC grant. States may use the savings from the reduced AFDC grant levels to provide or underwrite job opportunities for AFDC eligibles.

The CWEP provision specified that community work experience programs must be designed to improve the employability of participants through actual work experience and training, and to enable individuals to move into regular employment. Participants may not be required to work in excess of the number of hours which, when multiplied by the greater of the Federal or the applicable State minimum wage, equals the sum of the amount of aid payable to the family.

The individuals who may be required to participate in a CWEP project are generally the same as those who must register for the work incentive (WIN) program. WIN requires the registration of all recipients unless they are: children under age 16 or in school full time; ill, incapacitated, or elderly; too far from a project to participate; needed at home to care for a person who is ill; a caretaker relative providing care on a substantially full-time basis for a child under age 6; employed at least 30 hours a week; or the parent of a child if the other parent is required to register (unless that parent has refused). CWEP also excludes individuals who are employed 80 hours a month and earning at least the applicable minimum wage. In addition, mothers with no children under age 3 (rather than 6) may be required to participate in CWEP if day care is available

and persons who are exempt from WIN because they live too far from a WIN project may be required to particpate in CWEP.

States receive 50 percent Federal matching for the costs of administering CWEP. However, these costs may not include the cost of materials or equipment, or the cost of supervision of work, and may include only such other costs as the Secretary of HHS permits.

According to the Administration, a significant number of States have or are expected to implement workfare (work experience) programs. As of May 25, 1982, six States had implemented a CWEP program under the regular CWEP statutory authority (Alabama, Idaho, North Dakota, West Virginia, Utah and South Carolina). An additional four States have implemented or will soom implement a CWEP program under the Social Security Act (Sec. 1115) demonstration authority (New York, Michigan, Ohio, and North Carolina). Twelve States have informed the Administration that they are in various stages of considering or planning implementation of a CWEP program. These are Alaska, California, Colorado, Georgia, Iowa, Kansas, Louisiana, Mississippi, Missouri, Montana, Pennsylvania and Washington.

Three States (Oklahoma, Massachusetts and South Dakota) are currently operating WIN demonstration programs. Seven additional States are planning demonstrations (Arizona, Arkansas, Delaware, Florida, Maryland, New Jersey and Nebraska). There are no States operating work supplementation programs.

Proposed change.—The administration is proposing that all States be required to establish a CWEP program. The State would be required to refer to CWEP each unemployed parent who is the principal earner under the AFDC-unemployed parent program, unless the parent was participating in another employment training or work supplementation program. The proposal does not specify how extensive a State CWEP program would have to be.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$15
1984	22
1985	23

12. Treatment of Energy Assistance as Income for AFDC

Present law.—The Low-Income Home Energy Assistance Act of 1981 authorizes grants to States to assist eligible households in meeting the costs of home energy. The 1982 continuing resolution provided $1.753 billion for the program this year. In addition, the supplemental appropriation bill, Public Law 97-148, contained an additional $123 million. States may use these funds to make payments to individuals in AFDC or other low income households. The

law provides that these payments may not be counted as income or resources for purposes of the AFDC program.

Under the AFDC program, States develop payment standards which are intended to cover basic family needs. The standards of all States include food, clothing, shelter and utilities. Many States use a "consolidated standard" which does not identify the amount payable for any particular item.

Proposed change.—States would be required to count as income for AFDC any payments that are made under the low-income home energy assistance program to the extent the State determines that they duplicate the amount for home energy in the State payment standard. If the State determines that the payments are intended to meet the family's need for home energy assistance in two or more months, it may allocate the payments among two or more months as it finds appropriate. Excess amounts would not be counted for purposes of AFDC.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$30
1984	33
1985	36

13. Prorate Shelter and Utilities for AFDC Families Which Share Households

Present law.—States are generally not allowed to adjust the AFDC benefit for a family when it shares a household with other individuals.

Proposed change.—The administration is proposing that States be required to adjust the AFDC benefit when an AFDC family shares a household with other individuals by prorating the portion of the grant which the State designates for shelter and utilities. The assistance unit would receive the amount determined by multiplying the amount that would be paid for shelter and utilities to an assistance unit that includes all the members of the household, by the ratio of the number of individuals in the assistance unit over the total number of household members.

For example, in a State that pays $150 for shelter and utilities to a 3-person assistance unit, and $220 for shelter and utilities to a 5-person assistance unit, where a 3-person assistance unit lives with 2 other individuals, the State would multiply $220 (the shelter and utility allowance for 5 persons) by 3/5. The State would pay the assistance unit $132 for shelter and utilities.

The portion of the standard which the States designate for shelter and utilities would be determined in the same manner as is used under current law for proration in the case of certain "child only" units.

Effective date.—This provision is effective July 1, 1982.
Estimated savings.—

Fiscal years:	Millions
1983	$174
1984	177
1985	178

14. Administrative Costs Block Grant

Present law.—The Federal Government matches State AFDC administrative expenses at a 50 percent rate on an open-ended entitlement basis. Matching of the costs of implementing approved AFDC management information systems is available at a 90-percent rate.

Total Federal, State, and local expenditures for AFDC administration increased from $1.0 billion in 1975 to $1.4 billion in 1980. It is estimated that they will increase to $1.9 billion in 1983 (under present law).

Proposed change.—The present AFDC matching authority would be repealed. The Secretary would be directed to make grants to each State for AFDC administrative costs. Beginning in fiscal year 1983, a specified amount, $845 million, would be authorized to be appropriated for each fiscal year. If the Secretary were provided with authority (which is being sought in a separate bill) to make combined payments for the administrative costs of the AFDC program as well as for other assistance programs (medicaid and food stamps), the amounts appropriated under AFDC could be added to the funding for one or more of the other programs and paid under the single, combined payment authority.

The amount payable to a State for any fiscal year would be proportionate to its share of the total Federal administrative expenditures in the last two quarters of fiscal year 1981 and the first two quarters in fiscal year 1982. A State would be required to submit to the Secretary each year a report on the intended use of its allotment. The report would have to assure that fiscal control and fund accounting procedures would be established, and it would have to be made available to the public in a manner to facilitate review and comments by interested persons and local governments. Each State would be required to conduct biennially a financial and compliance audit. The audit would have to be conducted by an entity independent of an agency administering activities related to AFDC administration.

Effective date.—This provision is effective October 1, 1982.
Estimated savings.—

Fiscal years:	Millions
1983	$106
1984	181
1985	261

15. Reduce Federal Matching for AFDC Payment Errors

Present law.—In the four major welfare programs, AFDC, SSI, medicaid, and the food stamp program, the Federal Government and the States have established on-going "quality control" systems. These systems attempt to: (1) measure the extent and dollar value of "errors" in administration; (2) identify the types and cause of error; and (3) specify and monitor corrective actions taken to eliminate or reduce errors.

In the AFDC, medicaid, and food stamp programs, States may be "sanctioned" by being required to pay the Federal Government the Federal cost of improperly issued benefits, as shown by quality control surveys, if they do not keep their error rates below a national average or show a reduction in their error rates that meets a regularly adjusted "target improvement rate". However, waivers of these sanctions are allowed and have, thus far, been regularly granted. The fiscal sanction that may be imposed is the amount of Federal funds misspent above what the States' error rate would have been if it had met its target improvement rate. In the SSI system, the Federal Government is to reimburse States for their share of federally administered SSI funds misspent above a 4 percent "tolerance level".

The regulations prescribing the AFDC sanction rules were issued pursuant to a provision in the fiscal year 1980 appropriation bill (sec. 201 of H.R. 4389) directing the Secretary to issue regulations requiring States to reduce their AFDC payment error rate to 4 percent by September 30, 1982. Although the bill was not enacted, the Congress adopted a continuing resolution (Public Law 96–123) to appropriate 1980 funds "to the extent" and "in the manner" of H.R. 4389, as adopted by the House on August 2, 1979. This legislation was interpreted by the Department as requiring the implementation of section 201.

Under these regulations, States are required to achieve one-third progress toward the 4-percent payment error rate (measured from their error rate for the base period April-September 1978) by September 30, 1980, and two-thirds progress by September 30, 1981. The 4-percent goal is the standard for all assessment periods after September 30, 1982.

The national average payment error rate for recent measurement periods has been: April-September 1979, 9.5 percent; October 1979-March 1980, 8.3 percent; and April-September 1980, 7.3 percent. For that most recent period, only four States had achieved the 4-percent goal: Minnesota, Iowa, Nevada, and Oregon.

Proposed change.—Under the administration's proposal, Federal matching would be discontinued for erroneous benefit payments in

excess of 3 percent in 1983, 2 percent in 1984, and 1 percent in 1985. Beginning in 1986, no Federal matching would be permitted for any erroneous payment in AFDC. Grant amounts to States would reflect projections of State costs and error rates. In other words, they would be reduced on a prospective basis.

AFDC QUALITY CONTROL APRIL–SEPTEMBER 1980 PAYMENT ERROR RATES, BY REGION [1]

Region and State	Ineligible and eligible overpaid
U.S. average [2]	7.3
Region I [2]	8.0
Connecticut	6.2
Maine	7.3
Massachusetts	8.2
New Hampshire	11.1
Rhode Island	9.7
Vermont	11.4
Region II [2]	9.6
New Jersey	9.3
New York	9.7
Puerto Rico	10.3
Virgin Islands	5.4
Region III [2]	8.5
Delaware	7.9
District of Columbia	10.5
Maryland	12.7
Pennsylvania	8.0
Virginia	4.7
West Virginia	6.9
Region IV [2]	6.2
Alabama	7.6
Florida	5.8
Georgia	7.8
Kentucky	4.7
Mississippi	6.9
North Carolina	4.8
South Carolina	6.9
Tennessee	7.0
Region V [2]	7.0
Illinois	6.9
Indiana	4.6
Michigan	7.3
Minnesota	2.3
Ohio	8.7
Wisconsin	7.6
Region VI [2]	6.8
Arkansas	6.1
Louisiana	7.2
New Mexico	8.2
Oklahoma	4.8
Texas	7.8
Region VII [2]	5.3
Iowa	3.8
Kansas	7.4
Missouri	5.9
Nebraska	4.3
Region VIII [2]	9.8
Colorado	13.3
Montana	11.2
North Dakota	4.7
South Dakota	6.8

AFDC QUALITY CONTROL APRIL–SEPTEMBER 1980 PAYMENT ERROR RATES, BY REGION [1]—Continued

Region and State	Ineligible and eligible overpaid
Utah	5.5
Wyoming	16.4
Region IX [2]	5.3
Arizona	9.5
California	5.1
Hawaii	9.2
Nevada	2.3
Region X [2]	7.7
Alaska	14.4
Idaho	11.8
Oregon	4.0
Washington	9.1

[1] Based on reviews of statistically reliable samples for approximately 40,000 cases in each reporting period from an average national caseload of 3.5 million families.
[2] Weighted average.
Source: Department of Health and Human Services.

Effective date.—This provision is effective October 1, 1982.
Estimated savings.—

Fiscal years:	Millions
1983	$234
1984	105
1985	167

16. Repeal of Work Incentive (WIN) Program

Present law.—The work incentive (WIN) program (title IV–C) is charged with administering the work registration requirement for AFDC recipients, and providing employment and training services for those who are required to register or who volunteer for WIN services. The program also provides support services, including child care, for those who need them in order to work or take training. The program is administered jointly at the Federal level by the Department of Health and Human Services and the Department of Labor, and at the State level by the welfare (or social service) agency and the employment service. The federal matching rate is 90 percent.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate a 3-year demonstration project as an alternative to the current WIN program. The demonstration is aimed at testing single-agency administration, and the demonstration must be operated under the direction of the welfare agency. The legislation includes broad waiver authority.

The 1982 continuing resolution reduced the WIN appropriation from $365 million in fiscal year 1981 to $246 million for fiscal year 1982. Conferees on the urgent supplemental appropriations bill for

1982 have agreed to increase the WIN appropriation for 1982 by $57.6 million.

Proposed change.—The administration proposes to repeal the WIN program. New legislation would require individuals who would have been required to register for WIN to register with the State welfare agency for employment-related activities and training. State welfare agencies would be required to cooperate with other agencies in securing employment and training opportunities for those on welfare. The Department of Labor would no longer have any responsibility for administering the work requirements and determining sanctions for AFDC recipients. State agencies would have to conduct employability assessments of each individual who is required to register.

Effective date.—This provision is effective October 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$247
1984	246
1985	245

NOTE.—These savings estimates assume that repealing WIN will have no impact on AFDC costs.

17. Eligibility of Alien When Sponsor is an Agency or Other Organization

Present law.—The 1981 Reconciliation Act included a provision requiring that the income and resources of a sponsor be deemed to an alien for 3 years after the alien's entry into the United States. This provision does not apply to refugees.

Proposed change.—The administration proposes to extend this provision to apply to aliens who are sponsored by organizations. If an organization executes an affidavit of support on behalf of an alien, the alien could receive AFDC only if the welfare agency determined that the organization is no longer in existence, or only to the extent that it does not have the financial ability to meet the individual's needs.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

18. Work Requirements for AFDC Recipients; Age of Child

Present law.—A caretaker relative who is providing care on a substantially full-time basis for a child under age 6 is not required to register for work and training under the WIN program. Under the community work experience program (CWEP), States may require caretaker relatives who are caring for a child between 3 and 6 to participate in CWEP, provided child care is available.

Proposed change.—The option which a State now has under CWEP to require caretaker relatives with a child between 3 and 6

to participate in work or training if child care is available would be extended to other kinds of employment or training activities.

Effective date.—The provision is effective July 1, 1982.

Estimated savings.—Negligible.

19. Coverage of Certain Applicants Under AFDC Excess Income Rule

Present law.—States must count nonrecurring lump-sum income as available to meet the needs of the family in the month of receipt and in future months, if the income of the family exceeds the State's standard of need. This provision applies only if the lump sum is received by an individual in the month of application or after he becomes a recipient.

Proposed change.—This provision would be extended to cover lump-sum payments received by an individual during a period (to be prescribed by the Secretary) prior to the month of application if the individual had been a recipient during that period of time. This is aimed at ensuring that individuals who expect to receive a lump-sum payment cannot avoid the current rule by removing themselves from the rolls, receiving and spending the money, and then reapplying.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

20. Access to AFDC Information

Present law.—States must restrict the use or disclosure of information concerning applicants or recipients to purposes directly connected with: (1) the administration of the AFDC program or other specified programs under the Social Security Act, (2) any investigation, prosecution, or criminal or civil proceeding conducted in connection with the administration of any such plan or program, (3) the administration of any other Federal or federally assisted program which provides assistance to individuals on the basis of need, and (4) any audit or similar activity conducted in connection with the administration of any such program by a governmental entity which is authorized by law to conduct such audit or activity. States are also required to provide safeguards which prohibit disclosure to any committee or legislative body (other than an audit or similar entity with respect to an audit or similar activity) of any information which identifies by name or address any applicant or recipient.

Proposed change.—AFDC information could be disclosed in connection with any investigation, prosecution, or criminal or civil proceeding (other than investigations conducted by private entities or civil proceedings in which no public agency is or could properly be a party), instead of being restricted to investigations or proceedings related to the administration of Social Security Act programs. Information could also be disclosed in connection with all Federal or federally assisted, and State and local programs, instead of being restricted to Federal or federally assisted programs which provide assistance to individuals based on need.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

21. Limitation on Individuals Considered Essential Persons

Present law.—States are allowed to establish the need of an AFDC family on a basis that recognizes, as essential to the well-being of an individual in the family, the presence in the home of other needy individuals. An "essential person" may not otherwise be eligible for AFDC. States must specify in their plans the persons whose needs will be included in determining the recipient's need, and must provide that the decision as to whether an individual will be recognized as essential to the recipient's well-being shall rest with the recipient. According to the administration, 27 States currently have policies for including essential persons in the determination of the payment amount. Examples of persons who have been specified by States as "essential persons" include children age 18–21, legal or common-law spouses of caretaker relatives, and unemployed or incapacitated stepparents.

States With Essential Person Provisions

Arizona	Louisiana	Oregon
Arkansas	Maryland	Pennsylvania
California	Massachusetts	Utah
District of Columbia	Mississippi	Vermont
Guam	Nebraska	Virgin Islands
Hawaii	New Jersey	Virginia
Illinois	New Mexico	Washington
Iowa	New York	West Virginia
Kansas	North Carolina	Wisconsin

Proposed change.—States would be allowed to include an individual in the grant as an "essential person" only when the person is living in the home with a caretaker relative and child and is also providing personal services required: (1) because of the relative's physical or mental inability to provide necessary care for himself or for the child, or (2) in order to permit the relative to engage in full-time employment.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

22. Effect of Participation in Strike on Eligibility for AFDC

Present law.—Under a provision of the Omnibus Budget Reconciliation Act of 1981, AFDC may not be paid to a family if a caretaker relative (mother or father) is, on the last day of the month, participating in a strike.

Proposed change.—The administration proposes to deny assistance to a family when the caretaker relative is on strike the first day (rather than the last) of the month. In the case of applicants, assistance would be denied if the caretaker relative is on strike on the effective date of the application.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

23. Sanction for Refusal to Repay AFDC Overpayments

Present law.—Under a provision added by the Reconciliation Act of 1981, States are required to collect AFDC overpayments. The AFDC payment for any month in which overpayments are being

recovered, together with the recipients' liquid resources and all income, must equal at least 90 percent of the payment standard. There is no sanction if a recipient refuses to cooperate in repaying the overpayment.

Proposed change.—If an individual with total income and liquid resources in excess of 90 percent of the payment standard refuses to make repayment of the overpayment from such excess, that individual's need would not be taken into consideration in determining the family's benefits until he has agreed to make repayment of the full amount of the overpayment and has paid the agency the monthly amount agreed to by the individual and the State agency.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

II. Child Support Enforcement (CSE)

1. Fee for Services to Non-AFDC Families

Present law.—The child support statute requires States to provide child support services to both AFDC and non-AFDC families. The cost of providing services is matched by the Federal Government at a 75 percent rate.

Prior law allowed States to recover costs of serving non-AFDC families by charging an application fee of up to $20, and by retaining a portion of any child support payments it collected. Last year the Administration proposed replacing this optional provision with a requirement that States retain a fee equal to 10 percent of the support collected. In the Reconciliation Act, the Congress amended this provision to require that the fee be charged against the absent parent, rather than the custodial parent, and that the fee be added to the amount of the collection. States have reported that because of legislative barriers and administrative difficulties, they have generally been unable to implement the requirement that the collection be charged only against the absent parent.

Proposed change.—The administration proposes that States be required to recover any costs of making collections on behalf of non-AFDC families by deducting the costs from the amount of any recovery made, or, at the option of the State, from the parent who owes the support. States would be allowed to determine the costs on a standardized basis, in accordance with criteria set by the Secretary. However, no amount could be collected that exceeded 10 percent of the amount of the collection.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$45
1984	51
1985	59

2. Periodic Review of Effectiveness of State Programs; Modification of Penalty

Present law.—If, as a result of an annual audit, a State is found by the Secretary to have failed to have an effective child support enforcement program, the amount payable to the State for its AFDC program must be reduced by 5 percent. No State has thus far been penalized under this provision.

Proposed change.—The administration is proposing to replace the annual audit procedure with a new procedure for reviewing the effectiveness of State child support enforcement programs. Under the new procedure, the Secretary would be required to conduct a review of each State's program at least every three years. He would be required to determine whether the program "substantially complies" with the requirements of the law, and to evaluate the effectiveness of the program. The Secretary would be required to establish criteria for evaluating effectiveness which, to the maximum extent feasible, relate to assessment of objectively measurable results.

If the State is found not to be in substantial compliance, or not to be effective in achieving the purposes of the program, the Secretary would notify the State and establish a time period within which the State must achieve compliance. If the State failed to take timely corrective action, the amount payable for the AFDC program would be reduced by not more than 2 percent; or, if a second consecutive finding is made, not more than 3 percent; or, if the finding is the third or subsequent consecutive finding, not more than 5 percent.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

3. Increased Availability of Federal Parent Locator Service to State Agencies

Present law.—The Federal Parent Locator Service may be used to locate an absent parent only after it is determined that the absent parent cannot be located through procedures available to the State.

Proposed change.—The requirement that the procedures available to the State be used before allowing use of the Federal Parent Locator Service would be repealed.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—Negligible.

4. Allotments for Child and Spousal Support by Members of Armed Forces

Present law.—Present law does not provide for allotments from the pay and allowances of members of the U.S. Armed Forces.

Proposed change.—The administration proposes to amend title 37, U.S. Code, pertaining to the pay and allowances of the uniformed services. A new section would be added to require allotments from the pay and allowances of any member of the uniformed service, on active duty, when he fails to make child (or child and spousal) support payments. The requirement would arise when the member failed to make support payments in an amount at least equivalent to the value of two months' worth of support. Provisions of the Consumer Credit Protection Act would apply so that the percentage of the member's pay which could be garnished would be limited. The amount of the allotment will be that of the support payment, as established under a legally enforceable administrative or judicial order.

Effective date.—The effective date of this provision is July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$7
1984	9
1985	10

NOTE.—Because this provision amends title 37, U.S.C., it is not in the jurisdiction of the Finance Committee.

5. Restructure Federal Matching Provisions

Present law.—The Federal Government is required to pay 75 percent of all State and local administrative costs for child support services. Any child support that is collected on behalf of an AFDC family is used to offset AFDC benefit costs. The amounts recovered reimburse the Federal and State governments according to their respective AFDC matching shares. In addition, States and localities receive a 15-percent incentive payment (financed out of the Federal share of collections) for collections made on behalf of an AFDC family.

Proposed change.—The administration proposes establishing a new method for determining Federal sharing in both the collections and the administrative costs of State child support enforcement programs. Instead of a percentage matching rate (and separate provision for State and local incentive payments), State administrative costs would be met from retained collections (i.e., total collections reduced by amounts that must be distributed for the child or spouse). Any balance would be shared by the State and Federal governments in the same proportion as the AFDC matching rate. If administrative costs exceed retained collections, the Secretary would participate in the deficit to the extent of that same matching rate times the deficit.

In addition, in lieu of incentive payments, a system of payments recognizing effective performance would be authorized, with the formula and amounts to be specified by the Secretary in regulations. It is not known at this time what the administration plans to do should this provision be enacted.

The Secretary would be authorized to grant waivers to allow States to conduct experimental and demonstration projects.

The provision requiring States to intercept unemployment benefits, enacted in the 1981 Reconciliation Act, would be made optional with the States.

The authority in present law to pay the costs of certain State court personnel to perform duties related to child support enforcement would be repealed.

There would be changes in the Secretary's reporting responsibilities.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$100
1984	100
1985	100

6. Reimbursement of State Agency in Initial Month of Ineligibility for AFDC

Present law.—Amounts of support collected which are sufficient to make the family ineligible for AFDC must be paid to the family beginning with the first month of ineligibility.

Proposed change.—Amounts collected which are sufficient to make the family ineligible would be paid to the family in months after the first month of ineligibility. This would allow the State to reimburse itself for AFDC that would have already been paid for that month before the support was collected and known to make the family ineligible. Thus, the family would not receive double payment for the same month, both in the form of AFDC and through receipt of the support collection.

Effective date.—This provision is effective July 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$3
1984	4
1985	4

7. Child Support for Certain Children in Foster Care

Present law.—There is no specific authority in the law for collection of child support payments on behalf of children in foster care.

Proposed change.—States would be authorized to make child support collections with respect to children on behalf of whom the State agency is making foster care payments. Amounts collected would be paid to the State agency responsible for supervising the foster care placement, for disposition as the State agency determines will serve the best interests of the child, to the extent that the collections exceed the foster care payments made on behalf of the child but do not exceed the amount required by court order. Amounts in excess of the court order would be retained by the State to the extent they do not exceed the total of past foster care payments made on behalf of the child. Any balance would be paid to the State agency responsible for supervising the foster care placement for disposition as serves the best interests of the child.

Effective date.—This provision is effective July 1, 1982.

Estimated saving.—Negligible.

III. Child Welfare Block Grant (Title IV-B and E)

Present law.—Title IV-B (Child Welfare Services and Training) of the Social Security Act authorizes grants to the States for the purpose of providing child welfare services and training. The Adoption Assistance and Foster Care Act of 1980 (Public Law 96-272) restructured the child welfare services program to place greater emphasis on services designed to prevent or remedy the need for long-term foster care. The child welfare services program received $164 million in appropriations in fiscal year 1981, with an additional $5 million provided in child welfare training. The 1982 Continuing Resolution provided a spending level of $156 million for child welfare services, and $4 million for training.

The Adoption Assistance and Child Welfare Services act also created a new title IV-E (Foster Care and Adoption Assistance) of the Social Security Act, which restructured programs for the care of children who must be removed from their own homes. The new law is aimed at encouraging efforts to find permanent homes for children either by making it possible for them to return to their own families, or by placing them in adoptive homes. It provides Federal matching at the medicaid matching rate for adoption subsidies made by States to adoptive parents of children who are hard to place because of special needs. States may also receive Federal matching for foster care payments made on behalf of AFDC-eligible children. Public Law 96-272 placed a mandatory ceiling on Federal foster care matching funds for 4 years beginning with fiscal 1981. The ceiling is contingent upon the appropriation of specified additional amounts for the child care services program. It was in effect in 1981, but not in effect in 1982.

The estimated level of spending in 1981 for foster care is $349 million, with an additional $5 million spent for adoption assistance. Under present law, child welfare services are subject to appropriations action while foster care and adoption assistance are entitlements.

Proposed change.—The administration proposes to substitute a child welfare block grant program for the present Federal programs providing for foster care, adoption assistance, and child welfare services under parts A, B, and E of title IV of the Social Security Act. The block grant would be subject to fewer Federal requirements than the Federal-State programs it would replace, but the safeguards for children in foster care enacted in Public Law 96-272 would be retained. The funding level would be set at $380 million for fiscal year 1983 and thereafter.

Effective date.—The block grant would be effective October 1, 1982.

Estimated savings.—

Fiscal years:	Million
1983	$190
1984	235
1985	280

IV. Social Services Block Grant (Title XX)

1. Funding Level

Present law.—In addition to cash benefit programs and medical assistance, the Social Security Act includes provisions in title XX which makes Federal funding available for social services. In previous years, title XX legislation authorized matching funds for State social services programs on an entitlement basis. The Federal matching rate was generally 75 percent. In the Omnibus Budget Reconciliation Act of 1981, a new social services block grant program was created to replace the prior Federal-State matching program. A number of requirements on the States have been removed, and funding levels have been reduced. The program remains an appropriated entitlement, with each State eligible to receive its share of a national total of $2.4 billion in 1982, $2.45 billion in 1983, $2.5 billion in 1984, and $2.6 billion in 1985.

As under the previous statute, allocations are made on the basis of State population. States may determine how their funds are to be used and who may be served. There are no family income requirements, and no fee requirements.

The social services block grant funds are used by the States for such services as: child and adult day care, transportation, health support, training, and family planning.

Proposed change.—The proposal would authorize an appropriation for the block grant of $1.974 billion for fiscal year 1983 and thereafter. The entitlement nature of the funding would be eliminated.

Effective date.—The effective date for this provision is October 1, 1982.

Estimated savings.—

Fiscal years:	Millions
1983	$476
1984	526
1985	626

2. Additional Amendments to Title XX

(a) *Transfer of funds among block grants.*—States would be permitted to transfer up to 10 percent of their allotments for use under any other block grants made by the Secretary of Health and

Human Services, rather than only under the three block grants specified in current law.

(b) *State administration.*—Current law requires that States report annually on the intended use of their title XX funds. The amendment would require that this pre-expenditure report include information on the geographic areas to be served and the criteria and method of fund disbursement.

(c) *Reports and audits.*—The amendment would require that the State's post-expenditure report be made annually, rather than biennially as under present law. The amendment would also provide that audits required under the program be performed in accordance with audit standards established by the Comptroller General, and would substitute for the present requirement that copies of the audit be submitted to the State legislature and the Secretary, a requirement that the audit be made available for public inspection within the State.

(d) *Territories eligible to participate.*—The definition of territories eligible to participate in the social services block grant program, as enacted by the 1981 Reconciliation Act, would be amended to include Guam (which was inadvertently omitted) and to exclude American Samoa and the Trust Territory of the Pacific Islands (which were inadvertently included).

(e) *Use in territorial programs of funds not needed for cash assistance.*—The administration is proposing a conforming amendment to continue to permit territories to use in their social services programs amounts to which they are entitled under the cash assistance programs but which they do not use to provide cash assistance. This option was inadvertently eliminated in the 1981 Reconciliation Act.

(f) *Nondiscrimination.*—The amendment would add to title XX a nondiscrimination provision modeled on the nondiscrimination provisions in the health-related block grants. The amendment specifically provides for application of the provisions of the Age Discrimination Act of 1975, section 504 of the Rehabilitation Act of 1973, title IX of the Education Amendments of 1972, and title VI of the Civil Rights Act of 1964. It also prohibits discrimination on grounds of sex or religion, and specifies a procedure for securing compliance with these nondiscrimination requirements.

(g) *Foster care standards.*—The amendment would correct a conforming amendment made by the 1981 Reconciliation Act. It would require States to assure that there was in the State an authority responsible for establishing foster care health and safety standards, and that these standards were applied to foster care under title IV. The provision enacted in the 1981 Act inappropriately requires application of child day care standards to foster care.

Effective date.—These provisions are effective July 1, 1982.

Estimated savings.—None.

TECHNICAL AND CONFORMING AMENDMENTS

The Administration is proposing several technical and conforming amendments to provisions of the Social Security Act as amended by the Omnibus Budget Reconciliation Act of 1981. These include amendments to the child support, SSI, AFDC, and unemployment compensation programs.

V. Supplemental Security Income [SSI]

1. Prorate First Month's Benefit Based Upon Date of Application

Present law.—The payment of SSI benefits begins with the first day of the month in which the recipient applies and meets the eligibility requirements.

Proposed change.—Prorate the first month's SSI benefit from the date of application or the date of eligibility, whichever is later. A similar proposal is being made for the AFDC program. (A provision requiring prorating the first month's food stamp benefits from the date of application was enacted in the 1981 Reconciliation Act.)

Effective date.—July 1, 1982.

Savings.—

Fiscal years:	Millions
1983	$26
1984	28
1985	32

2. Round SSI Eligibility and Benefit Amounts

Present law.—Under SSI monthly benefit amounts and income eligibility amounts (which are adjusted annually to reflect changes in the cost-of-living) are rounded to the next higher ten cents.

Proposed change.—Round SSI monthly benefit and income eligibility amounts to the next lower dollar.

Effective.—July 1, 1982.

Savings.—

Fiscal years:	Millions
1983	$20
1984	45
1985	70

3. Eliminate $20 Disregard for New Recipients

Present law.—Certain income is excluded in determining SSI benefit amounts and eligibility, including the first $20 of income a

month. This may be either earned income or unearned income (such as social security benefits, pension payments, or interest). The only income which does not qualify for this disregard is income based on need (e.g., veterans pensions). There is also an earned income disregard, whereby the first $65 of monthly earned income plus one-half the remaining earnings are disregarded in determining SSI benefits and eligibility.

Data for December 1980 show that 62 percent of SSI recipients receive unearned income (51 percent receive social security).

Proposed change.—Eliminate the $20 disregard for all new applicants and reapplicants. This proposal would not affect current SSI recipients nor would it alter the *earned* income disregard.

Effective date.—For applications filed after December 1982.

Savings.—

Fiscal years:	Millions
1983	$14
1984	55
1985	90

4. Determine Disability on Prognosis of at Least 24 Months Duration

Present law.—In order to be determined disabled under both the social security (Title II) and SSI (Title XVI) programs, an individual must be unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which is expected to result in death or last for a continuous period of not less than 12 months. (If a person has a disability which is expected to last for 12 months, payments may be made starting with the first month of disability. The 12-month rule is not a "waiting period.")

Proposed change.—For purposes of determining disability under the SSI program, increase from 12 to 24 months the minimum period for which the physical or mental impairment must be expected to continue. A 24-month requirement would assure that temporary disabilities would not be a basis to qualify for SSI. This change would not apply to current SSI recipients nor would it alter the definition of disability for purposes of social security (Title II).

Effective.—For applications first effective after June 1982.

Savings.—

Fiscal years:	Millions
1983	$30
1984	60
1985	90

5. Require that a Finding of Disability be Based on a Preponderance of Medical Factors

Present law.—Under both the social security (title II) program and SSI (title XVI), an individual can be determined to be disabled only if his physical or mental impairment or impairments are of such severity that he cannot do his previous work and cannot, considering his age, education, and work experience, engage in any other kind of substantial gainful work. Detailed regulations set forth the medical and vocational factors which must be considered in making the disability determination. Vocational factors are considered only if the individual is not found to have an impairment which meets or equals the medical listings.

Proposed change.—In determining whether an applicant for SSI benefits is disabled, only medical factors would be considered unless the applicant is of advanced age. These older applicants would continue to have age and vocational factors considered if their medical impairments are not severe enough to justify a finding of disability solely on the basis of medical factors. This proposal would not apply to current SSI recipients nor would it alter the determination of disability under social security (title II).

Effective.—For applications first effective after June 1982.

Savings.—

Fiscal years:	Millions
1983	$67
1984	140
1985	223

6. Coordination of SSI and OASDI Cost-of-Living Adjustments

Present law.—A provision of the Omnibus Budget Reconciliation Act of 1981 requires that SSI benefits be determined on the basis of a monthly retrospective accounting system which replaces the quarterly prospective system existing in the past. Rather than basing SSI benefits on the applicant's or recipient's income and resources in the current calendar quarter, benefits are based on income and resources in the prior month.

Because of a defect in drafting this legislation, the annual cost-of-living increase in SSI and OASDI benefits were not coordinated. As a result, for people who receive SSI and OASDI, the new, higher OASDI benefit paid each July will not immediately be reflected in the SSI benefit. One or two months later, the SSI benefit will fall when the new, higher income is taken into account. Because of this

error, the savings that were estimated to result from the change to retrospective accounting cannot be achieved. There will be a net cost.

Proposed change.—Coordinate the SSI and social security (OASDI) benefit increases so that at the time the cost-of-living adjustment is made, the recipient's SSI benefit is based on his or her social security payment in the same month. Also, whenever the Secretary judges there to be reliable information on the recipient's income or resources in a given month, base the SSI benefit in that month on that information. The Secretary would be required to prescribe by regulation the circumstances in which such information concerning a future event could be used to determine the monthly SSI benefit.

Effective date.—The cost-of-living coordination would be effective for benefits payable for months beginning 60 days after enactment. The broader authority would be effective on enactment.

Savings.—

Fiscal years:	Millions
1983	$45
1984	41
1985	43

7. Phase Out "Hold Harmless" Protection

Present law.—SSI provides for a basic Federal minimum payment for all recipients. States are allowed to supplement the Federal payment. The original statute of 1972 included "hold harmless" protection for the States which allowed them to supplement the Federal payment to assure that recipients would receive cash benefits equal to their January 1972 benefit levels, with no cost to the State beyond what it spent for benefits on behalf of aged, blind and disabled persons in 1972.

Because of Federal benefit increases since that time, all except two States, Hawaii and Wisconsin, have lost their "hold harmless" status. These two States still receive a Federal contribution to their State supplements because of a special provision added to the law in 1976. Under this provision, their "hold harmless" payments are no longer reduced by Federal benefit increases.

The 1982 Continuing Resolution provided for a reduction in the "hold harmless" payment for Wisconsin and Hawaii.

Proposed change.—Continue phasing out "hold harmless" payments as follows: Reduce the "hold harmless" payment to 40 percent of what it would otherwise be in 1983, to 20 percent in 1984, with no "hold harmless" payments made in 1985 and future years.

Effective date.—On enactment.

Savings.—

Fiscal years:	Millions
1983	$30
1984	37
1985	45

8. Eligibility of Aliens for SSI When Sponsor Is an Agency or Organization

Present law.—Under the SSI program, the income and resources of a sponsor are deemed to an alien for three years after the alien's entry into the United States. (This does not apply to refugees.)

Proposed change.—The administration proposes to extend this provision to apply to aliens who are sponsored by organizations. If an organization executes an affidavit of support on behalf of an alien, the alien could receive SSI only if the Secretary determines that the organization is no longer in existence, or only to the extent that it does not have the financial ability to meet the individual's needs. (A similar proposal has been made for AFDC.)

Effective date.—For applications filed after June 1982.

Savings.—Negligible.

9. Recovery of SSI Overpayments

Present law.—The Secretary is authorized to recover SSI overpayments by adjusting future payments, or by recovery from the recipient. Recovery of overpayments is to be made with a view to avoiding penalizing the individual who is without fault. Recovery of overpayments is not required, for example, if the individual is without fault and if recovery would defeat the purpose of the program, or be against equity or good conscience, or the amount to be recovered is so small as to impede efficient or effective administration.

Proposed change.—Under these same conditions, allow recovery of SSI overpayments from benefits payable under other programs administered by the Social Security Administration (Black Lung and OASDI benefits).

Effective date.—July 1, 1982.

Savings.—

Fiscal years:	Millions
1983	$16
1984	17
1985	18

VI. Unemployment Compensation

1. Modifications in Unemployment Compensation for Ex-Servicemembers (UC-X)

Present law.—As a result of the Omnibus Reconciliation Act of 1981, ex-servicemembers separated after July 1, 1981, are required to meet the following criteria for receipt of UC-X benefits:

- Must have performed continuous, active service for 365 days or more (unless terminated earlier because of an actual service-incurred injury or disability); and
- Must have been discharged or released under honorable conditions; and
- Must not have resigned or voluntarily left the services; and
- Must not have been released or discharged for cause as defined by the Department of Defense.

Individuals who resign (e.g., retire after completing 20 or more years of service) or voluntarily leave the service (e.g., granted a "hardship" discharge; eligible to reenlist but did not do so) are *not* eligible for UC-X benefits.

Individuals discharged or released for cause as defined by Department of Defense (e.g., alcohol abuse, drug abuse, homosexuality, unsatisfactory performance) are *not* eligible for UC-X benefits.

Proposed change.—Unemployment benefits would be available only for ex-servicemembers discharged or released under honorable conditions as a direct result of:

- An actual service-incurred injury or disability; or
- A reduction in the size or authorized strength of a unit or such Armed Forces or Commissioned Corps; or
- A demobilization or deactivation of such a unit or station or the closing of a facility or installation.

This will exclude not only those who voluntarily leave the military under honorable conditions, as provided in Public Law 97-35, but also will exclude those who leave the military involuntarily because of a "record of indiscipline or failure to maintain skill proficiency."

Effective date.—This provision is effective for separations occurring on or after the date of enactment (July 1, 1982 for estimating purposes).

Estimated savings.—

Fiscal years:	Millions
1983	$30
1984	30
1985	30

2. Round Unemployment Benefits to Next Lowest Dollar

Present law.—Under present law the States may determine rounding prccedures to apply in the calculation of an individual's weekly unemployment benefit.

Proposed change.—The administration's proposal would amend the Federal Unemployment Tax Act to require that state unemployment compensation laws provide for rounding down the weekly benefit amount to the closest whole dollar.

Effective date.—The proposal would apply to individuals whose benefit years begin after June 25, 1983. States would be given an opportunity to amend their State laws appropriately.

Estimated savings.—

Fiscal years:	Millions
1983	$6
1984	33
1985	30

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